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SUBJECT: NORTH KOREA ECONOMIC BRIEFING - June 2008

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----- Domestic Economy -----

DPRK Welcomes U.S. Delisting -----

North Korea's Central News Agency (KCNA) quoted a DPRK Foreign Ministry spokesman on June 27 stating that the United States government had announced plans to delist North Korea from its State-Sponsored Terrorism List and Trading with the Enemy Act on June 26. The North Korean government hailed the U.S. decision as a positive measure. The spokesman noted that the North Korean government will sincerely implement the September 19th Joint Statement, closely hewing to the principle of "action for action" in the future.

DPRK Economy Contracts 2.3 Percent in 2007 -----

The DPRK economy contracted 2.3 percent in 2007, down for a second consecutive year after falling 1.1 percent in 2006, according to a June 18 report by Bank of Korea (BOK). The BOK estimates that the South's economic output is now 36 times as large as the DPRK's. The BOK attributed the DPRK's negative growth to (1) international isolation stemming from

its nuclear weapons program and (2) reduced agriculture output due to unfavorable weather conditions. Agriculture output posted a significant 9.4 percent drop in 2007, while services improved slightly, mainly due to increased tourist earnings from South Korean visits. Manufacturing output rose 0.7 percent, with increased apparel and footwear production stemming from the Kaesong Industrial Complex (KIC) and inter-Korean cooperation projects. However, light industry declined 1.7 percent, mainly due to lower food, beverages, and cigarette production. Construction dropped 1.5 percent, contributing to further deterioration in the DPRK's already poor infrastructure. Overall mining output grew a slight 0.4 percent, chiefly due to lower production of coal and non-metal minerals canceling out higher iron ore and tungsten production. The following graph compares annual growth rates for the two Koreas:

ROK NGO Quotes DPRK Document on Food Shortages -----

A document released by the North Korean government indicates North Korea is facing grave food shortages, according to Good Friends, a South Korean NGO on June 18. The document stated, "Resolving today's food problem is very important for preserving the socialism of our own style and improving the living standards of the North Korean people." It also calls for redoubling North Korean efforts to increase this year's crop production.

Sensationalist DPRK Commercial Lures Foreign Customers -----

Chosun Ilbo, a South Korea-based daily, reported June 9 that a sensationalist commercial advertisement for game software was recently posted on the Chosu Expo, a DPRK-run internet shopping mall (www.chosunexpo.com). The shopping mall sells tea, health food, liquor, software games, and flatware, with commercial advertisements posted in English, Chinese, and Korean. The commercial advertisement depicted a female volley ball player dressed in a bikini. The Internet shopping mall was reportedly open in November 2004 to offer business consulting services similar to those of South Korea's Trade and Investment Promotion Agency (KOTRA).

DPRK Promotes English Language Teaching -----

North Korea is promoting English-language education throughout the country to help revive the economy, according

to a recent KOTRA report. North Korean authorities are reportedly considering establishing an English language center to train English teachers in cooperation with a Canadian NGO. Moreover, North Korean authorities are planning to introduce early English education courses in 3rd-grade elementary schools beginning this September. Global Aid Network, a Canada-based non-governmental organization, is currently recruiting English teachers to dispatch to Pyongyang's English language center on one-year assignments. The two countries had operated a Canada-DPRK Science and Technology English Education Center for North Korean science and technology engineers in 2004, but it was suspended in 2005.

Foreign Aid

Six-Party Countries Agree to Accelerate DPRK Energy Aid
Following a Six-Party Meeting

South Korea's Foreign Ministry (MOFAT) Spokesman Hwang Joon-kuk said June 11 that South Korea, the United States, Japan, China and Russia had agreed to speed up the delivery of energy aid to North Korea in exchange for its progress towards nuclear disablement. The Energy and Economy Working Group meeting was held at the truce village of Panmoonjeom on June 10-11. Hwang said the five donor countries have so far sent North Korea 384,000 tons of oil and other energy-related equipment out of the promised 1 million tons.

Korean-American Religious Group Builds General Hospital in
DPRK

Manna Missionary, a Houston-based Korean-American religious group, recently opened Sinheung General Hospital in Rajin, North Korea, according to Voice of America (VOA) on June 19. The hospital can accommodate 100 North Korean patients and is equipped with high-tech medical devices. The majority of medical doctors at the hospital consists of retired Korean-American medical doctors rotating in 2~3 months stints. Manna Missionary also assisted North Korea in setting up a bread factory in 1999 and a medical center in 2003. It also plans to train North Korean medical doctors.

Russia Sends Food Aid to DPRK via WFP

Russia's Foreign Ministry recently announced that the Russian government had shipped 2,860 metric tons of wheat flour to North Korea via the World Food Program (WFP) on June 11.

Italy Contributes 500,000 Euros to Relieve DPRK Food
Shortage

The VOA cited Italy's Foreign Ministry on June 20 stating that the Italian government had donated 500,000 euros (USD 790,000) in cash to the WFP for food aid to the DPRK. In addition, the Italian government recently shipped 1,300 metric tons of wheat flour to the DPRK via the WFP and pledged to contribute an additional one million euros (USD 1.58 million) to assist the DPRK in the near future.

WHO and FAO to Launch Anti-Epidemic Measures against DPRK
Bird Flu

Radio Free Asia (RFA) quoted the United Nations Food and Agriculture Organization (FAO) stating that it plans to launch a joint-venture project to prevent bird flu outbreaks

in North Korea in cooperation with the World Health Organization (WHO). The joint project will run from July through December of this year. Details of the project were not disclosed. Earlier in the month, Good Neighbors, a South Korea-based NGO, claimed it had observed bird flu cases in the North. North Korean authorities strongly denied the rumor. So far, no outbreak has been confirmed.

DPRK Requests WMO High-Tech Weather Equipment

The North Korean government has asked the World Meteorological Organization (WMO) to supply high-tech weather-observation devices to help forecast rainfall and prevent crop damage, according to the RFA on June 18. RFA quoted Dr. Tokiyoshi Yoya stating tat the WMO is considering how to support such a request.

Inter-Korean Economic Cooperation

May 2008 Inter-Korean Trade Up 14 Percent

Inter-Korean trade rose 14 percent to USD 173 million this May compared to the same month last year, according to MOU. The increase was largely due to commercial transactions, reaching USD 153 million, up 46 percent from USD 105 million last May. Non-commercial transactions between the two Koreas contracted significantly due to strained inter-Korean political ties, shrinking 58 percent to USD 19.6 million. South Korea's exports to the North grew 8 percent to USD 95.5 million in May, while the imports were up 22 percent to USD 77.2 million. In the meantime, inter-Korean trade grew 30.4 percent to USD 734.3 million in the first five months of 2008 compared to the same period a year ago. South Korea's exports to North Korea rose 27.6 percent to USD 376 million, while imports from North Korea grew 33.6 percent to USD 358 million.

New Inter-Korean Economic Cooperation Projects Decline

The number of inter-Korean economic cooperation consultations have steadily declined since the new South Korean government assumed office in late February, according to MOU figures. The number of business consultations (held under the auspices of the Inter-Korean Economic Cooperation Consultation Office set up in the Kaesong Industrial Complex) fell 29 percent in the first five months of this year compared to the same period of a year ago. MOU noted that lack of government level communications between the two Koreas accounted for the decline.

North Limits Passage to Kaesong Industrial Complex

Beginning on June 24, North Korean authorities restricted the passage of South Korean citizens and goods from the Kaesong Industrial Complex to South Korea to afternoons only. The DPRK spokesman cited by Yonhap explained, "North Korea has been allowing South Koreans to transport goods only during the afternoon period because transport connections necessary to manage cross-border passage are too old."

MOU Plans to Foster DPRK Human Resources

A Ministry of Unification (MOU) official said June 18 that it plans to propose a comprehensive plan for fostering North Korean human resources to respond to expanded inter-Korean

economic cooperation. The program will include economic and technical training.

ROK Legislator Proposes Another Inter-Korean Economic Zone in ROK

A South Korean legislator (and one of the ruling party's policy makers) Yim Chae-hee, is proposing a bill to establish an economic zone at Paju in northwest South Korea to help facilitate inter-Korean economic cooperation. North Korean workers would be invited to work at the South Korean free economic zone, whose size and function will be similar to that of the Kaesong Industrial Complex. North Korea has yet to respond to the South's proposal. Yim said that his bill would help North Korea chart a successful economic transition. "North Koreans can gradually learn lessons from the capitalist economy through the collaboration project," he said.

POSCO to Buy DPRK Coal and Iron Ore

POSCO-China Holding Corporation President Kim Dong-hyun visited Pyongyang June 24 at the invitation of North Korea's National Economic Cooperation Federation, a North Korean agency responsible for international economic cooperation, to discuss the purchase of anthracite coal. POSCO bought 200,000 tons of coal from North Korea last year and is considering purchasing more coal this year. POSCO also reportedly discussed the possibility of buying iron ore from the North. A POSCO official stated, "POSCO did not import North Korean iron ore in the past because its iron content was relatively low. As a result of soaring commodity prices, however, the company is now considering buying North Korean ore."

HAC delays Mount Baekdu Tour

Hyundai Asan Corporation (HAC), the South Korean tour operator of Mount Geumgang resort in the DPRK, said June 12 that it has decided to postpone its Mount Baekdu program into next year due to stalled inter-Korean governmental relations. HAC will instead focus on its existing tour programs to Mount Geumgang and Kaesong City. HAC conducted a Baekdu site survey last November, but key details on airport renovation, flight routes, and airlines have yet to be worked out.

Inter-Korean JV Textile Firm to Begin Production in August

Pyongyang Hemp Textiles (PHT - a joint-venture between South Korea's Andong Hemp Textiles and North Korea's Saebyeol General Company) plans to begin producing goods (socks, towels, sheets and textiles) this August, according to a company representative on June 5. PHT was initially capitalized at USD 30 million -- USD 15 million in capital from the South Korean firm and the remaining USD 15 million in hemp fields and factory land located around Pyongyang, North Korea. The PHT representative said that a total of 1,800 North Korean workers and 25 South Korean managers and technicians will participate in the venture.

ROK City Government Builds Bread Factory in Pyongyang

A South Korean delegation led by Mokpo City government leader Jung Jong-deuk visited Pyongyang May 31 to attend the ground-breaking ceremony of a bread factory in Pyongyang in cooperation with North Korea's National Reconciliation Committee. The Mokpo City government contributed USD

574,000 to finance the construction of the two-story factory, expected to be completed in September of this year. Upon completion, the factory will be able to provide 10,000 North Korean children with bread and cookies per day.

South NGO Sends Food Aid to North

On June 18, Good Neighbors sent USD 95,700 worth of food aid consisting of milk powder, wheat flour and vegetable oil to families in Nampo and Gangnam County near Pyongyang. Good Neighbors has also been helping North Korea to refurbish hospitals.

Foreign Trade and Investment

Japan Partially Lifts Sanctions on DPRK

Japanese Foreign Minister Masahiko Komura announced June 14 that the Japanese government had agreed to lift restrictions on the movement of people between the two countries and to end a ban on chartered flights from North Korea. In return, North Korea agreed to cooperate in the investigation of the 1970 hijacking of a Japanese aircraft flown to North Korea.

DPRK to Export Magnesium Oxide to Taiwan

Formosa Plastics Group, a leading Taiwan-based petrochemical company, plans to import 1,500 tons of magnesium oxide from North Korea, according to KOTRA on June 5. North Korea holds the world's 3rd largest magnesium oxide reserves, followed by China and Russia. Formosa Plastics plans to expand its imports of magnesium oxide from North Korea, diversifying away from its main supplier, China.

DPRK-Taiwan Trade Rises 15.5 Percent in 1st Quarter of 2008

North Korea's trade with Taiwan rose 15.5 percent to USD 5.2 million in the first quarter of this year, according to KOTRA. North Korea's exports to Taiwan skyrocketed 2,039 percent to USD 1.2 million (mainly coal and electric circuits), while imports from Taiwan fell 10 percent to USD 4 million (chiefly chemicals and soybeans).

DPRK-China Reportedly in Joint Development of DPRK Iron Ore Mine

Yonhap News Agency cited a Chinese source saying that North Korea and China are jointly developing North Korea's Ongjin Iron Ore Mine. S group, a China-based magnesium processing firm, in conjunction with DPRK authorities recently set up the West-Sea Joint Venture Company with a total capital of 36 million euros (USD 57 million) to develop the iron ore mine. The joint venture firm will expand its business into the construction of a thermal power plant, steel mill, and port facility in North Korea. The Ongjin iron ore mine is estimated to hold a iron ore reserve of 600 million tons.

DPRK Dispatches Workers to Poland to Earn Cash

RFA cited a Poland-based daily, Gazeta Wywrocza, on June 3 stating that North Korean authorities had dispatched approximately 42 North Korean workers to the Gdansk shipyard and Kleczanow farms in Poland's northwest to earn foreign

currency.

Dutch Travel Agency Promotes DPRK Tour

Koning Aap, a Dutch-based travel agency, has been promoting a 15-day North Korean tour program priced at 2, 850 Euros (USD 4,471) per person. The tour program includes Pyongyang, Kaesong, Panmujeom, Mount Myohyang, Nampo, and Inner Mount Geumgang. The company is considering offering more tour programs to North Korea.

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